PRINCE EDWARD ISLAND
CANADA

Canada - United States Trade Negotiations

PRINCIPLES AND OBJECTIVES

Trade Negotiations Secretariat
Province of Prince Edward Island

March, 1987

87-03455/

FOREWORD

Prince Edward Island's cornerstone industries -- agriculture, fisheries and tourism are all dependent on markets beyond our Provincial borders. Prince Edward Island therefore lends its qualified support to the Federal government in its bid to reach a bilateral trade agreement with the United States.

The special needs of this Province's resource-based industries and small business community must be respected throughout the negotiations. This paper is a starting point; as such, it contains a broad description of those issues which are of considerable importance to Prince Edward Island.

The Honourable Wayne D. Cheverie has been appointed Minister responsible for Trade Negotiations and a Trade Negotiations Secretariat has been formed in order that this Province may be fully prepared and informed on all aspects of the Canada-U.S. trade talks. The Secretariat officials have been directed to consult openly with Islanders in order that their views may be understood and respected.

The success of the trade negotiations in reaching an acceptable agreement relies heavily on a deliberate approach. Prince Edward Island will continue to assess and communicate its concerns to the Federal Government to ensure that to the greatest extent possible, this Province's position is embraced in a bilateral accord, should one be reached.

Honourable Joseph A. Ghiz
Premier
Province of Prince Edward Island

CONTENTS

Importance of International Trade 1

The United States Market: Access 2

Bilateral Trade Negotiations 4

- Agriculture 5
- Fisheries 6
- Manufacturing 6
- Tourism 6

Negotiation Objectives 7

Supporting Principles 11

Conclusion 11

IMPORTANCE OF INTERNATIONAL TRADE

CANADA

Compared to other industrialized nations, Canada earns a relatively large share of its national income through the sale of exports.

It is also the case that Canada's dependence on export markets has gradually increased over the past two decades. In 1985, Canada's exports of goods and services were valued at approximately $130 billion and constituted almost 30 percent of the gross national product (GNP), whereas twenty years ago, exports constituted less than one-fifth of the GNP.

PRINCE EDWARD ISLAND

Prince Edward Island's local market size is quite small, therefore, many producers have found it necessary to seek other markets for their goods and services.

Traditionally, the Province's trade has been oriented rather than more interprovincially than internationally. In recent years, however, the contribution of international exports to the Prince Edward Island economy has increased.

International Exports from P.E.I.
as a
Percentage of Gross Domestic Product
at Market Price

1974	4.4%	1982	9.9%
1976	7.2%	1984	10.7%
1978	5.7%	1986	9.7%
1980	9.0%		

In 1986, Prince Edward Island recorded international merchandise export sales of $146.2 million or 9.7 percent of the Province's estimated gross domestic product (GDP). In contrast to other Provinces, Prince Edward Island's exports are concentrated in the food products category. Agriculture and fisheries constitute in excess of four-fifths of Prince Edward Island merchandise exports. For Canada as a whole, only one-tenth of total exports are categorized as edible products.

THE UNITED STATES MARKET: ACCESS

CANADA

Canada and the United States are each other's largest trading partners. No two nations in the world buy and sell as much to each other or invest as much in each other's economy. Approximately 78 percent of Canada's merchandise exports are sent to the United States, while it supplies us with 71 percent of our total imports.

Access to the U.S. market, however, is not entirely secure. The threat and application of protectionist measures is a concern for Canada. In the context of a large trade deficit, Americans have increasingly resorted to the use of trade remedy actions in an attempt to stem the inflow of various imports. The U.S. Congress introduced hundreds of protectionist bills in the 1985-86 session alone.

Faced with the possible loss of access to U.S. markets, some Canadian businesses are reluctant to make long term commitments to expand or modernize or to launch new ventures in Canada.

Of the world's seven major industrialized nations, only Canada lacks guaranteed access to a market of at least 100 million people. Without this guaranteed access, the future of certain industries and the economic standard of living of Canadians could be compromised.

PRINCE EDWARD ISLAND

Prince Edward Island's reliance on the American market has increased over the past ten years. Fueled by favorable exchange rates and strong demand conditions in the U.S. economy, Prince Edward Island's U.S. exports rose from $10.7 million in 1976 to $87.5 million in 1986 -- an increase of over 700 percent.

Prince Edward Island Merchandise Exports to the U.S.A. 1976-1986

	($'000)	% of Total Exports
1976	10,694	27.7
1977	14,536	49.2
1978	19,682	51.7
1979	30,629	55.1
1980	26;826	37.4
1981	37,277	53.1
1982	49,746	48.4
1983	61,583	57.8
1984	76,559	58.4
1985	73,530	64.9
1986	87,537	59.9

Merchandise exports to the United States from Prince Edward Island during 1985 equaled 5.4 percent of gross domestic product. Major export items destined for the U.S. included:

Prince Edward Island Merchandise Exports to the U.S. 1985

Class	($'000)	% of Total Exports to U.S.
Potatoes	$25,487	34.7%
Lobster	17,551	23.9
Groundfish & elagic (fresh or frozen)	13,619	18.5
Eyeglass frames	2,169	2.9
Computer Equipment	2,123	2.9
Scallops	1,104	1.5
Peas	1,107	1.5
Clams	773	1.1
	$63,933	87.0%
Other	9,600	13.0
Total Exports to U.S.	$73,533	100.0%

Not only is the United States our largest (and fastest growing) export market, it also represents the greatest potential market for our exporters. Factors such as the close proximity to a number of major U.S. centres, a common language, similar time zones and good transportation and communications linkages heighten the importance of this market. In contrast to other export markets, the U.S. is particularly suited for first-time exporters and smaller firms, which compose a large proportion of our business sector.

Although Prince Edward Island exporters are generally pleased with their present performance in the U.S. market, there are segments which remain difficult to penetrate due to tariffs and other barriers. The single greatest concern for Prince Edward Island exporters today, however, is the use of U.S. contingency protection mechanisms. In recent years, anti-dumping and countervail actions against round white potatoes, saltfish, groundfish, and hogs and pork, have resulted in high legal costs, have been time consuming, and have eroded industry confidence. Another concern is that at times, truckers are subject to lengthy delays and increased costs as a result of U.S. border inspections and permit requirements.

Fortunately, Island exporters have, to date, generally escaped the levy of serious countervailing duties and have managed to cope reasonably well with other non-tariff barriers. Nevertheless, the threat of protectionism in the future remains a very real concern.

BILATERAL TRADE NEGOTIATIONS

CANADA

Since the formation of the General Agreement on Tariffs and Trade (GATT) in 1947, and the subsequent seven "rounds" of multilateral trade negotiations (MTNs), global tariff levels have declined significantly and the volume of world trade has grown dramatically, thereby contributing to a rising economic standard of living for the member trading nations. There appears to be a consensus that the MTNs have served as a useful mechanism for achieving progress in Canada's trade objectives.

As a direct result of the MTNs, Canadian and American tariff levels have been gradually reduced or eliminated to such an extent that approximately 70 percent of total bilateral trade is now tariff-free. It is estimated that the average Canadian tariff rate on dutiable products is 8-9 percent, whereas the average U.S. tariff on dutiable products is 4-5 percent.

The current round of MTNs, known as the Uruguay Round, may result in further reductions of tariff and non-tariff barriers applicable to multilateral (and Canada-U.S.) trade. Thus, future liberalization of Canada-U.S. trade will most likely occur even if the current bilateral trade negotiations do not result in an agreement.

The MTNs, however, may not be the most appropriate means of addressing some key Canadian and American bilateral trade issues. The special trading relationship between the U.S. and Canada warrants the pursuit of a mutually beneficial trade agreement. According to most studies on the subject, enhanced bilateral trade could benefit *both* nations economically, in terms of increased economic efficiency, output, and real income. Implicit as part of the adjustment process, however, would be a rationalization of some industries which are now effectively protected by tariffs.

The pursuit of national economic goals in a comprehensive Canada-U.S. trade agreement should not overshadow other considerations of equal or greater importance, such as Canada's right to implement social and cultural policies and to intervene in the economy to ameliorate regional economic disparities.

It is certainly conceivable that it will be possible to negotiate a bilateral trade agreement that will satisfactorily accommodate the above concerns. Canada, however, should also be prepared to reject a draft bilateral agreement, if after careful review, a consensus emerges that such an agreement would not be in the nation's or a province's best interest.

PRINCE EDWARD ISLAND

As previously noted, recent years have witnessed a trend of rapid growth in Prince Edward Island export sales to the U.S. In most instances, tariff rates applicable to Island exports are low, and in many cases it is perceived that the undervalued Canadian currency more than compensates for existing tariff barriers.

It is expected that Canada-U.S. trade liberalization in the non-agriculture sector would not greatly affect most Island firms. Greater discipline in the use of the U.S. contingency protection actions, however, could be of potential value to the majority of Prince Edward Island exporters. Although the specifics of a bilateral trade agreement remain to be negotiated, it is possible to identify broad Prince Edward Island sectorial interests:

Agriculture

It is widely agreed that agriculture is one of the most sensitive areas that will be addressed in the bilateral trade negotiations. Agriculture is a highly regulated industry in most Western nations. Both Canada and the U.S. employ a wide range of policy instruments designed to stabilize and enhance farm incomes and to ensure that adequate food supplies are available to their populations.

Canada and P.E.I. must retain the right to preserve essential agricultural policy instruments and protect the family farm. Several commodities are now served by national supply-management programs; the future well-being of these sub-sectors, and others such as potatoes, for which supply management is now being considered, must be protected and ensured.

The viability of producers of milk, eggs, and poultry could be seriously compromised if a bilateral trade agreement were to restrict the use of border controls which are necessary to maintain the integrity of supply management programs.

Some agricultural commodities, however, are subject to extensive cross-border trade and could benefit from trade liberalization. It could also be possible for mutually beneficial negotiations to be conducted in the area of technical regulations. Significant progress in restraining the use of U.S. contingency protection actions against Prince Edward Island potato exports would be welcomed.

Thus, while a broad and extensive agriculture component of a bilateral trade agreement could be quite damaging to the Province's agriculture sector and to the Province as a whole, there are some issues/commodities where the scope may exist for mutually beneficial bilateral negotiations.

Fisheries

Prince Edward Island fisheries exports face relatively few restrictions in entering the U.S. Record catches, combined with favourable U.S. prices, have contributed to a strong growth in export values. Bilateral removal of the few remaining tariffs on fisheries products would provide modest benefits to Island fishermen and would create new limited opportunities for adding further value to fish products prior to export. Greater access to the U.S. marketplace, however, must not be sought at the cost of increased U.S. access to our non-surplus fish stocks. The Canadian fishery must continue to be protected by the resource management programs now in place.

The fisheries industry has recently been the object of U.S. anti-dumping and countervail actions. Whole fresh Atlantic groundfish exports are now subject to a 5.82 percent countervailing duty. While this duty only applies to a relatively small proportion of P.E.I. fish exports, future fisheries countervail actions could be of a much broader scope and could jeopardize markets for shellfish, including lobster. Progress in the restraining of the use of U.S. contingency protection actions would improve the future prospects for the fishery.

Manufacturing

The majority of Prince Edward Island's manufacturing companies are food and beverage processors. Prince Edward Island's processed fish and frozen potato products have successfully penetrated U.S. Markets, and could benefit from trade liberalization. Other food products, however, which use supply managed inputs could be vulnerable to trade liberalization.

The Province's exporting, non-resource manufacturing sector consists of a diverse group of firms which are generally competitive in supplying custom-type products in their U.S. market niches. Increased access should lead to sales gains for these specialized small-scale operations. In certain instances, firms producing mass producible items primarily for the domestic market and protected by high tariffs could face stiff U.S. competition as a consequence of trade liberalization. Other manufacturers fabricating specialized goods to meet local needs would be largely unaffected by an enhanced trade regime.

Tourism

Bilateral trade negotiations are expected to address the service sector; however, the tourism industry is currently not subject to major trade barriers, and therefore, it is expected that toursim would not be significantly affeced by a bilateral trade agreement. It is possible, however, that a greater north-south flow of goods and services could assist in heightening the American awareness of Canada and more specifically, Prince Edward Island. This increased visibility and the current value of the U.S. dollar would encourage Americans to consider this Province as a vacation destination. With expanded Canada-U.S. trade, it is reasonable to assume that business travel volumes would increase; as well, a measurable effect on the Island's convention business could be expected.

The preceding outlines Prince Edward Island's major concerns associated with the Province's major industries. Final comment on the acceptability of a bilateral accord in respect of each of these sectors must await the review of a draft agreement. In the interim, Prince Edward Island will participate in federal-provincial dialogue on the negotiations and will continue to assess and communicate its concerns to the Federal Government.

NEGOTIATION OBJECTIVES

CANADA

Objectives for the bilateral trade negotiations have been proposed by the Federal Government and some Provincial governments. Before examining the negotiation objectives supported by Prince Edward Island, it may be useful to review those put forth by the Federal Government.

International Trade Minister James Kelleher recommended the following objectives for bilateral trade negotiations:

1. **To save "jobs" in the short term and create jobs in the medium and long term.**

2. **To create a stronger economy in all regions of Canada.**

3. **To stimulate balanced growth and job creation throughout the nation.**

4. **To allow all Canadians to share in the benefits of this national effort.**

5. **To strengthen the economic basis for our cultural objectives.**

6. **To secure and enhance our access to the U.S. market by enshrining a better set of rules whereby our trade is conducted.**

7. **To develop a more predictable environment for trade and investment.**

Mr. Kelleher's stated priorities were subsequently ratified by the Prime Minister of Canada.

PRINCE EDWARD ISLAND

Prince Edward Island recommends that five primary objectives be pursued by the Federal negotiator. It is our understanding that these objectives are compatible with those of the Federal Government:

1. **To obtain security of access to export markets.**

2. **To obtain improved access to export markets.**

3. **To ensure that Canada has flexibility in implementing social development policies and programs, recognizing that they do not specifically subsidize exports.**

4. **To ensure that Canada has flexibility in implementing agriculture and fisheries policies.**

5. **To ensure that Canada has flexibility in implementing regional economic development initiatives, directed at alleviating disparities.**

1. TO OBTAIN SECURITY OF ACCESS TO EXPORT MARKETS.

Secure access for Canada means that whatever access we have, or can negotiate, must not be threatened by protectionist legislation which often raises the cost and uncertainty of investing in, or exporting from, a Canadian location.

Secure access requires that there must be significant modification of American trade laws, not the bilateral elimination of *all* contingency protection. The frequency and scope of U.S. countervail actions must be diminished in consideration of the serious and damaging impact which these decisions have had on Canada's export trade.

The transparency and predictability of U.S. trade laws must be increased if Canadian exporters are to benefit from security of access.

While some disciplines on the use of subsidies may be required to achieve concessions on contingency protection measures, the controlled use of subsidies should be permitted for legitimate, non-trade distorting purposes such as regional economic development.

Supplementary objectives directed a securing access to the U.S. market include:

(a) **To reduce U.S. contingency protection measures.**

The disproportionate impact of countervail actions on the two economies is readily apparent when one considers that 78 percent of Canada's exports are destined for the U.S. while only 22 percent of American exports are shipped to Canada.

The temptation for American industries to initiate contingency protection action is now greater, given the current large U.S. trade deficit and the higher value of the American dollar.

(b) **To reach agreement on what constitutes an "acceptable domestic subsidy".**

Disagreement as to what constitutes an unfair domestic subsidy has frequently been the basis for actions threatening security of access. Canadian and American authorities should reach agreement on the definition of an acceptable subsidy level as well as a subsidy classification system in order to avoid unnecessary and lengthy disputes caused by differences of interpretation. Regional development assistance should be included in the scope of "acceptable domestic subsidy".

(c) **To institute easily-triggered safeguard measures and dispute settlement procedures.**

Safeguard measures should be implemented to protect industries, on both sides of the border, from sudden surges in imports. These measures should be activated on short notice with the full intention of returning industries to unrestricted trade as soon as possible.

An efficient and effective dispute settlement mechanism would be an integral component of an enhanced trade agreement. The dispute settlement procedures should be jointly administered by Canada and the U.S. with a primary focus on the expedient resolution of bilateral trade problems.

(d) **To harmonize American and Canadian tariff classifications in those areas where mutual benefits will accrue.**

Often non-tariff barriers materialize as a result of varying tariff classifications. In order to be assured secure access to the U.S. Market, Canada should pursue a harmonized import-export regime. The proposed adoption by Western nations of the "Harmonized System" of tariff classification in 1988 could satisfy this requirement.

2. TO OBTAIN IMPROVED ACCESS TO EXPORT MARKETS.

The reduction of tariff levels and non-tariff barriers between Canada and the United States should result in economic gains for both countries. Tariff reduction could provide modest benefits to Canadian consumers. Canadian tariffs on many consumer goods are in excess of 10 percent, and in some instances are in the range of 25 percent. *Ceteris paribus,* a reduction in these tariffs would enhance the purchasing power of consumers.

A bilateral trade agreement could provide domestic exporters with better access to a large marketplace adjacent to their border, and lead to productivity increases and industrial rationalization. The latter consequence is of concern to those firms which are now protected by tariffs. It is essential, therefore to provide for a reasonable adjustment period to ensure a smooth transition toward heightened competitiveness.

To further support this broad initiative, the following secondary objectives must be adopted:

(a) **To reduce tariff and non-tariff trade barriers between Canada and the United States in a manner which is considered mutually beneficial.**

This objective can only be achieved through the continuing co-operation and commitment of both nations. It would be unrealistic to attempt to eliminate *all* trade barriers, however, it is important that mutually beneficial changes in tariff and non-tariff barriers be addressed during the bilateral negotiations.

(b) **To ensure that a bilateral trade agreement contains provisions for acceptable adjustment measures.**

Efforts to expand access to export markets must be accompanied by transitionary measures. As previously stated, the future of those tariff-protected industries which may be affected by bilateral trade arrangement is highly dependent upon a period of controlled rationalization and change.

The Federal government must ensure that any workers who may be dislocated as a consequence of a bilateral trade agreement will receive adequate adjustment assistance consisting of temporary income support, retraining and other measures which may be required. Similarly, the owners of firms made redundant by a bilateral trade agreement should receive some type of suitable assistance or compensation.

(c) **To maintain and enhance current market development initiatives within an enhanced trade setting.**

Greater access to export markets is achieved through the reduction of trade barriers *and* the active promotion of domestic goods and services abroad. Present efforts to market Canadian goods and services in other countries must not only continue but be expanded, given new opportunities created by enhanced trade.

3. **TO ENSURE THAT CANADA HAS FLEXIBILITY IN IMPLEMENTING SOCIAL DEVELOPMENT POLICIES AND PROGRAMS, RECOGNIZING THAT THEY DO NOT SPECIFICALLY SUBSIDIZE EXPORTS.**

Social development programs are vital to Canada's future well-being and should be non-negotiable. These initiatives must exist if Provinces like Prince Edward Island are to continue to develop.

More specifically, the following sub-objectives must be pursued in order that Canada's social development programs be preserved:

(a) **To guarantee the future of programs directed at correcting social imbalances and redistributing income.**

Programs such as medicare, hospital insurance, fiscal equalization payments to the provinces and unemployment insurance are clearly not trade issues, and must not be subject to negotiation.

(b) **To provide for the continued support of Canada's cultural industries.**

Canada's cultural industries continue to grow; however, they are dwarfed when compared to similar American interests. In order that Canada's cultural identity be protected and not be threatened by much larger scale American entities, sufficient flexibility to further assist our cultural industries should be maintained.

4. **TO ENSURE THAT CANADA HAS FLEXIBILITY IN IMPLEMENTING AGRICULTURE AND FISHERIES POLICIES.**

Primary industries continue to make an important contribution to the Canadian economy. The following sub-objectives are necessary to ensure the future viability of the agriculture and fisheries industries:

(a) **To retain the right for Canada and the Provinces to employ essential agricultural policy instruments.**

Some of the major agricultural problems facing Canada and the United States extend beyond the North American continent and may be most appropriately addressed in multilateral fora.

A Canada-U.S. trade agreement should neither compromise Canada's existing agricultural supply management programs, nor preclude the adoption of orderly marketing systems for additional commodities in the future, provided that such programs are consistent with the GATT.

(b) **To ensure that Canada's resource management efforts in the fishery are not compromised.**

Being a common property resource, Canadian the fisheries resource are the property of the people of Canada. The Government of Canada has a responsibility to wisely manage fish stocks in the best interest of Canadians.

5. **TO ENSURE THAT CANADA HAS FLEXIBILITY IN IMPLEMENTING REGIONAL ECONOMIC DEVELOPMENT INITIATIVES, DIRECTED AT ALLEVIATING DISPARITIES.**

Federal and Provincial governments must continue to address economic and regional disparities. Through a variety of regional economic development programs, progress has been made toward the amelioration of economic disparities among Provinces.

A bilateral trade agreement must not impair Canada's right to employ a broad range of legitimate policy instruments in support of these objectives.

SUPPORTING PRINCIPLES

Prince Edward Island's position on bilateral trade is founded upon the following principles:

1. **Canada's sovereignty must be protected and preserved.**

2. **Canada's right to formulate and apply both social and fiscal policies must be permitted under a bilateral trade agreement.**

3. **Canada's ability to correct economic and regional disparities must not be compromised.**

4. **Canada must be prepared to discontinue negotiations should the U.S. demand concessions which are unacceptable.**

5. **Ratification procedures for an enhanced trade agreement will be jointly designed and agreed to by the Federal and Provincial governments.**

6. **The Federal government will continue to provide for the meaningful participation of the Provinces throughout the bilateral trade negotiations.**

7. **All points contained in a bilateral trade agreement must be consistent with the concurrent and ensuing multilateral trade negotiations.**

CONCLUSION

The Federal government's initiative in seeking a bilateral trade agreement between Canada and the U.S. is conditionally supported. Prince Edward Island's reliance on export markets justifies the pursuit of secure and expanded access to the United States market.

There are principles which this Province proposes should not be open to negotiation; however, there are many more aspects upon which Canada and the U.S. could reach agreement.

The province could benefit from Canada-U.S. trade liberalization provided that major agricultural policy instruments and regional economic development efforts are not compromised.

The Federal negotiator has agreed to open communication between his office and the Provinces. As previously stated, regular First Ministers' conference, consultation among Designated Ministers and routine meetings of government officials should provide Prince Edward Island with an opportunity to have input into the negotiation process in a meaningful way. In consideration of the many variables and issues involved, Prince Edward Island's actual endorsement of an accord on bilateral trade will only be determined after a proposed agreement has been reviewed.